

January 5, 2005

**MEMORANDUM**

TO: Finance and Human Resources Officers  
All State Agencies

FROM: Ruth Mealy, Director  
Payroll and Tax Reporting Division  
Office of Financial Management

**SUBJECT: Calendar Year 2005 Payroll Tax Information**

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Detailed information regarding the federal income tax, social security tax, and Medicare tax is available in Circular E, which can be obtained from the Internal Revenue Service by calling 1-800-829-3676 or visiting their web site at <http://www.irs.gov>. A high-level summary of changes for 2005 follows.

**Federal Income Tax**

The bi-weekly value of a withholding allowance has increased from \$119.23 in calendar year 2004 to \$123.08 for calendar year 2005. This equates to an annual value of a withholding allowance for 2005 of \$3,200; it was \$3,100 for 2004.

As a reminder, please note that federal W-4 forms claiming exemption from withholding expire annually on February 15. If an employee previously claiming exemption from federal withholding does not give you a new W-4 form by February 15, 2005, you must change the employee's marital status to single and federal withholding allowances to zero.

**Premium Mileage Rate**

The Internal Revenue Service has increased the standard mileage rate from 37.5 cents to 40.5 cents effective January 1, 2005. The State's "premium" mileage reimbursement rate also increases from 37.5 cents to 40.5 cents on January 1, 2005.

This change will affect your agency in two ways:

- The rate used to calculate and report employees' personal use of state vehicles as a taxable fringe benefit.
- The reimbursement rate for premium mileage.

### **Federal Advance Earned Income Credit (EIC)**

The maximum amount of income an employee can earn and still get the EIC has increased. An employee may be able to take the credit if:

- The employee has more than one qualifying child and has earned less than \$34,458 (\$35,458 if married filing jointly),
- The employee has one qualifying child and has earned less than \$30,388 (\$31,388 if married filing jointly), or
- The employee does not have a qualifying child and has earned less than \$11,490 (\$12,490 if married filing jointly).

An employee's adjusted gross income also must be less than the amount in the above list that applies to them.

As a reminder, please note that federal W-5 forms used to claim EIC expire annually on December 31. If an employee previously claiming the credit did not give you a new W-5 form by December 31, 2004, they will not be eligible for the credit until a new W-5 form is filed.

### **Social Security Tax**

For 2005, the social security tax rate remains at 6.20%. However, the maximum wage base has been increased from \$87,900 to \$90,000, resulting in a maximum tax of \$5,580.00.

### **Medicare Tax**

For 2005, the Medicare tax rate remains at 1.45% with no wage ceiling.

### **Michigan Income Taxes**

The bi-weekly value of a withholding allowance has increased from \$119.23 in calendar year 2004 to \$123.08 for calendar year 2005. This equates to an annual value of a withholding allowance for 2005 of \$3,200; it was \$3,100 for 2004. The tax rate for 2005 is unchanged at 3.9%.

### **Other States and City Income Taxes**

There are no significant changes related to other states or cities for which the state withholds income taxes.

### **Deferred Compensation Maximum Deferral**

For 2005, the maximum deferral for employees participating in the 401(k) or 457 plans has increased from \$13,000 to \$14,000 for each plan. The maximum catch-up deferral for employees that are at least 50 years old for 401(k) or 457 has increased

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from \$3,000 to \$4,000 for each plan. The maximum catch-up deferral for employees contributing to a 457 plan and within three years of normal retirement has increased from \$13,000 to \$14,000. The total maximum 457 plan contribution for 2005, including both regular deferrals and normal retirement catch-up deferrals, has increased from \$26,000 to \$28,000.

Please direct any state employee's questions regarding the 401(k) or 457 plans to CitiStreet at 1-800-748-6128 or the Plan Web Site at <http://stateofmi.csplans.com>. If after contacting CitiStreet there are further questions, the Office of Retirement Services can be contacted at 1-800-381-5111.

Please direct any other questions regarding this memo to the Office of Financial Management, Payroll and Tax Reporting Division, Ed Dettling at (517) 335-7269 or Peter Woodford at (517) 335-3588.

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